



## **Two Words – Don't Panic!**

The markets continue to see-saw. In times like these, Dr. Doom types tend to get more air time on radio and television. And if you're listening to someone paint a gloomy picture of the future while also watching the Dow Jones index drop 100 to 400 points, day after day, it is only natural to panic and want to get the heck out before everything goes to hell in a hand-basket and takes your portfolio with it. But as they say, panic is NOT a strategy!

The market's current drop, coming within three years of the 2008 crash, has, for good reason, unnerved and confused millions of investors on how to save for long-term goals such as retirement.

In times like these, my advice to you is simple - don't panic! Let me also remind you that the decline so far is less than the 20% drop it takes to qualify this downturn as a bear market.

### Selling Everything Hurts Your Portfolio

But tempting as it may be, avoid the urge to sell all your equity holdings and sit on cash. I firmly believe that equities must be a part of every well-balanced portfolio over the long run.

Research also suggests that many investors trailed the overall market index over the past two decades – while the S&P500 averaged an 8.2% average annual return between 1990 and 2009, small investors only gained 2.3%, primarily because they panicked out of market lows and missed subsequent rebounds.

## Reassess Your Portfolio

Now, I'm not saying sit still and do nothing. Take action by coolly re-evaluating your portfolio and your financial goals. Look for balance across all asset classes, and gauge your financial exposure and potential losses under multiple scenarios –For example if stocks decline 25%, or 50%. When it comes down to it, the psychological part of investing; the part that deals with your fear has more to do with your success than any other factor.

Perform a casual “stress test” on your portfolio. If you have a diversified portfolio of stocks or mutual funds in your 401k, calculate the percentage in the stock market relative to the rest of the your investments.

If your mix is 50/50, you can estimate the effect on your money if stocks decline by 20%. Yes, you'll lose 10% (on paper).

Here's an important trick: Calculate the loss in real dollars. If you have \$350,000 invested of which 50% is in stocks, a 10% loss is \$35,000 (again, on paper). How does that make you feel? Can you sleep at night?

Using this method find the mix you can live with. This will help you avoid the biggest mistake investors make. Panicking and selling out at the absolute worst time.

## Six-Month Cushion

What I will also tell you is that these are unusual times, and some of your fear and caution is well-founded. I'll even go a step further and urge you to step up your savings and plow a little **less** into the market. Given all the uncertainty, you may be well served if you had at least six to twelve months worth of living expenses set aside for emergencies such as unemployment. Simply because finding an equally well paying job in the current economy may take longer, and settling for less than your market worth could be a much more damaging move longer term.

## Check Your 401(k)

For many of you, your 401(k) is your primary investment vehicle. Make sure these investments are well diversified with a healthy mix of stocks and bonds.

### Consider Target Mutual Funds

Investors should also consider “Target” mutual funds. These funds automatically re-balance your portfolio into more conservative investments as you approach your target retirement date. Such funds relieve you of the headache of trying to rebalance your portfolio and are worth considering.

So... pick yourself up, assess your situation and make these changes. Then sit back and enjoy the market’s gyrations, stress free!